

CITY OF BARNUM

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

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City of Barnum

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2016)</u>		
Paul Gardner	Mayor	Dec 2017
Jim Byson, Sr	Council Member	Dec 2015
Rick Rogers	Council Member	Dec 2017
Dean Quade	Council Member	Dec 2015
Lynn Ewoldt	Council Member	Dec 2017
Ron Vincent	Council Member	Dec 2015
Christina Bower	City Clerk	Indefinite
Darren Driscoll	City Attorney	Indefinite
<u>(After January 2016)</u>		
Paul Gardner	Mayor	Dec 2017
Jim Byson, Sr	Council Member	Dec 2019
Rick Rogers	Council Member	Dec 2017
Dean Quade	Council Member (resigned)	Apr 2016
Kent Bower	Council Member (appointed)	Dec 2017
Lynn Ewoldt	Council Member	Dec 2017
Ron Vincent	Council Member	Dec 2019
Christina Bower	City Clerk	Indefinite
Darren Driscoll	City Attorney	Indefinite



Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated December 10, 2014 on the City of Barnum, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated December 10, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes an additional finding and recommendation for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Barnum and other parties to whom the City of Barnum may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Barnum during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

Faller, Kincheloe & Co, PLC

October 17, 2016

CITY OF BARNUM

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated December 10, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (C) Clerk's Report – Although monthly Clerks' reports are prepared, a budget vs actual comparison was not present.

Recommendation – The City should establish procedures to ensure the monthly Clerk's reports include a budget vs actual comparison.

Current Status – Corrected. The monthly Clerk's Reports include the budget vs actual comparison.

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Report on the Status of Periodic Examination Findings and Recommendations

(D) City Council Minutes – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be posted at three public places. These public places should be permanently designated by ordinance. The current ordinance is out of date and does not name the three public places where the minutes are being posted.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for some meetings tested.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa. In addition, the City should ensure the ordinances are up to date.

Current Status – Partially corrected. The minutes tested were signed as required. According to the updated City Ordinance, City Council proceedings are now posted at three public places. The minutes tested did not include total disbursements from each fund and a summary of all receipts.

(E) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Current Status – Not corrected. The recommendation is repeated.

(F) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status – Corrected. The City has fully implemented the Uniform Chart of Accounts in the accounting system.

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Report on the Status of Periodic Examination Findings and Recommendations

- (G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records. In addition, the City did not report the correct budget amounts on the City’s Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records. In addition, the City should ensure that the correct budget of the City is included on future Annual Financial Reports.

Current Status – Corrected. The City’s Annual Financial Report for the year ended June 30, 2015 agrees with the City’s records. The City reported the correct budget amounts on the City’s Annual Financial Report.

- (H) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (I) Payroll – The following were identified:
- We could not locate City Council approval of the wage rates for all employees tested.
 - The Mayor’s and City Council’s wages were not set by ordinance.

Recommendation – The City Council should approve pay rates for all City employees, with the approval documented in the City Council minutes. The City Council should also update the ordinance authorizing the wages for the Mayor and City Council.

Current Status – Corrected. Wage rates for all City employees were approved by resolution by the City Council. Additionally, the Mayor’s and City Council’s wages were set by ordinance.

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Report on the Status of Periodic Examination Findings and Recommendations

- (J) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 100% for utility repairs. All of the local option sales tax receipts are recorded in a capital projects fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum. Also the City should record the local option sales tax receipts into a special revenue fund and then transfer the money to the utility funds for proper accounting.

Current Status – Corrected. For the period tested, the City did not spend local option sales tax funds. The City has plans to use the local option sales tax funds for utility repairs and to help pay utility construction debt.

- (K) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Leslie Joslin, Council Member Sole Proprietor	Mowing	\$500

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transaction with Leslie Joslin does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

Disclosure Only – Corrected. For the period tested, there were no business transactions between the City and City officials or employees.

- (L) Bank Reconciliations – The cash balances in the City's general ledger were not reconciled to bank account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile. The books did not properly account for the outstanding items.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

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Current Status – Partially corrected. For the period tested, the cash balances in the City's general ledger were reconciled to bank account balances. However, an independent review of the reconciliations is not documented.

- (M) Water Revenue Notes – The provisions of the water revenue notes resolution requires the City produce net operating receipts equal to at least 100% of the principal and interest on notes falling due in the same year. Since the City's Enterprise, Water Fund is in a deficit position the City has not maintained sufficient user rates.

The provisions of the water revenue notes also require sufficient monthly transfers to be made to a separate water revenue note sinking account for the purpose of making the note principal and interest payments when due. The City has not made the required transfers to this account.

Recommendation – The City should review its water rate structure and expenses and adjust to ensure collection of net receipts of at least 100% of the principal and interest payments falling due in the same year. The City should also ensure sufficient monthly transfers are made to the water revenue note sinking account as required.

Current Status – Corrected. The City issued a new General Obligation Refunding Note dated December 23, 2014 for the purpose of paying the cost of current refunding the outstanding balance of the City's Water Revenue Improvement and Refunding Note dated January 22, 2013. The new note states that the city should include a tax levy for debt payment with the receipts going to the Debt Service Fund, but the note also states that any funds of the City which may lawfully be applied to payment of the debt will reduce the need to levy for debt payments. The new note does not require the City to create a sinking fund for the purpose of making the note principal and interest payments.

- (N) Financial Condition – At June 30, 2014, the City has deficit balances of \$23,224 and \$18,698 in the Enterprise, Water Fund and Special Revenue, Trust and Agency Fund respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

Current Status – Partially corrected. At June 30, 2015, the deficit balances in the Enterprise, Water Fund and Special Revenue, Trust and Agency Fund had been resolved. However, the Capital Projects Fund had a deficit fund balance of \$23,644.

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- (O) Debt Service – For the year ended June 30, 2014, the City had a debt service fund balance of \$4,836. However, there was no documentation that the City has any general obligation debt which is payable from the debt service fund.

Recommendation – The City should consult bond legal counsel regarding this matter.

Current Status – Corrected. At June 30, 2015 there was no balance remaining in the debt service fund.

Additional Finding as a Result of Follow-up Procedures:

- (P) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, culture and recreation, general government, debt service, capital projects, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.